AUDIT COMMITTEE SIZE AND AUDIT COMMITTEE ACTIVITY ON FINANCIAL PERFORMANCE

(An Empirical Study on IDX30)

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Abstract

The audit committee plays a vital role in financial performance. This study aims to determine the effect of audit committee size and audit committee activity on the financial performance of IDX30 index companies. This research was conducted on companies in the IDX30 index, which were listed on the Indonesia Stock Exchange in 2016–2018. This study used the annual report of the IDX30 company from 2016 until 2018. The sampling method is purposive sampling. Based on this method, 18 companies are acquired as a sample, with a 3-year observation period, resulting in 54 firm-year observations. Multiple regression was applied in processing the data. The data were analyzed using descriptive statistical analysis, correlation, and regression analysis. The results of the study showed that audit committee size did not have a significant effect on firm financial performance. Meanwhile, audit committee activity had a significant negative effect on firm financial performance. Simultaneously, audit committee size and audit committee activity have a significant negative effect on financial performance. The result implies that the audit committee size does not guarantee a good return on assets, while audit committee activity if done moderately it gives a good impact on the financial performance of the company.

Keywords: Audit Committe Size, Audit Committee Activity, Financial Performance, IDX30

INTRODUCTION

The high level of economic development in Indonesia encourages businesses to be able to compete with other businesses. To continue to exist and compete, every firm must have an acceptable and good corporate financial strategy for the future to ensure the company's sustainability. Designing financial plans is done for firm operational activities and by designing appropriate plans to improve a company's financial performance. Financial performance is critical for businesses to understand and evaluate their level of achievement based on economic operations carried out.

A company's operational actions will be influenced by its financial performance. Companies with strong financial performance show the results of effective management performance in managing their assets so that operational operations run smoothly and profitably. Meanwhile, bad financial performance will significantly impede the company's operating activity. The company's financial manager is accountable for the company's good or bad financial performance. Analyzing the company's financial data can help identify financial performance. Each company's financial report period has ratios that can impact stakeholders' decision-making. Financial performance is measured using profit and loss reports (profitability), liquidity reports, and balance sheet assets. Proper governance is needed to maintain a sustainable financial performance. Corporate governance is a word that is frequently used to describe the processes and structures that a corporation uses to direct and manage its business activities to increase the wealth of its shareholders (Mazlina Mustapha & Ayoib Che Ahmad, 2011). One of the good governance practices is to establish an audit committee. The audit committee fosters better disclosure and provides corporations with the tools they need to deliver credible and comprehensive financial statements. (Haldar & Raithatha, 2017).

The audit committee consists of at least three members, at least two-thirds of whom are independent parties with no ties to the company. Because of its significant role and responsibilities, determining the number of audit committee member reveals that the audit committee is an inseparable and critical component of a company. The audit committee is in charge of overseeing corporate governance and improving management performance to ensure the company's success. Because the audit committee is a subcommittee of the function of the board of commissioners, it is required to hold meetings to discuss matters related to its role as a monitor for mechanisms to improve the quality of financial report information for stakeholders and investors, as well as a liaison to avoid information asymmetry between owners and the manager. Audit committee activity is defined as the number of meetings attended by audit committee members in a given year. This meeting will look at audit issues in general and undertake extensive management performance appraisals.

This research aims to explore the influence of audit committee size and audit committee activity on financial performance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory, introduced by Jensen and Meckling (1976), examines the functioning relationship between the principle, or the party granting power, and the agent, or the party receiving authority. The subject of agency theory is the behavioral interaction between the owners (principals) and those people (agents) who are engaged by the owners to perform obligations on behalf of the principal where the agent is given some decision-making authority. (Kisanyanya & Omagwa, 2018). According to Jensen and Meckling (1976), agency cost is a fee payable to the principal for controlling the actions of an agent or manager that is classified into three types: bonding costs, monitoring costs, and residual loss .(Simanjuntak & Sinaga, 2021). Principals hire agents to carry out duties in their best interests, such as delegating decision-making authority from principals to agents (Yustrida Bernawati, 2020). The existence of this theory helps improve the governance of business entities if used properly.

Audit Committee

The Audit Committee's purpose is to assist the Board of Commissioner's supervisory function in overseeing the integrity of the company's financial statements, the External

Auditor's qualifications and independence, and the performance of the company's internal audit function and External Auditor on the one hand, and to prepare the report that OJK rules require to be included in the company's annual proxy statement on the other. (International Finance Corporation, 2014). The primary goal of a firm's audit committee is to protect financial reporting accuracy, audit methods, internal controls, and compliance with regulations and principles. (Arens, 2014). The audit committee's presence must result in high-quality, impartial reports. (Yustrida Bernawati, 2020). Audit committees play a vital role in enhancing corporate governance as a critical component of board governance. Audit committees are often charged with supervising the internal audit system and its implementation, reviewing corporate financial information and disclosures, and reviewing the company's internal control systems (Cheng et al., 2022). The audit committee is a portion of a corporation that is interested in demonstrating the company's good and healthy condition to users of financial statements(Yustrida Bernawati, 2020). Under any circumstances, an audit committee plays a vital role in improving a company's governance.

Audit Committee Size

The size of the audit committee is the number of members on the audit committee. Members of the Audit Committee must be financially literate. The head of the Audit Committee shall be the Independent Commissioner. Further, the members of the Audit Committee shall consist of 2 Independent Commissioner or any other external party (International Finance Corporation, 2014). There are at least three (3) members of the audit committee. Both non-listed and listed companies must have an audit committee to oversee managerial tasks. This is the committee that is considered very important from the shareholders' perspective. The composition of the Audit Committee shall be such that it can accommodate the complexity of the company by taking into account the effectiveness in decision-making.

Audit Committee Activity

The audit committee's activity is seen as a key aspect influencing corporate transparency. The audit committee is the greatest venue for directors to examine financial reporting issues, find solutions, and implement corrective actions (Khlif & Samaha, 2016). Before the Board of Commissioners meets, the Audit Committee should meet. This meeting should take place far enough in advance of the Board of Commissioners meeting to allow the Audit Committee to transmit its findings and the Board of Commissioners to thoroughly evaluate them. The Audit Committee should meet at least once every three months (International Finance Corporation, 2014). Regular audit committee meetings would ensure that audit committee members' responsibilities in terms of internal control, effective and smooth running of the internal and external auditing process, minimization of information risk, management fraud, and mitigation of any agency problems were carried out properly (Kamaludin et al., 2023). In carrying out its tasks and obligations, the audit committee should meet frequently and document its conclusions.

Financial Performance

A firm's financial performance can be measured and assessed for a certain period. Financial performance is the result of activities from the company's economic operations in a period (Kariyoto 2017). Financial performance indicates how well a company uses its resources to generate profits. It had been measured using exploitation accounting profit measures (Riyadh et al., 2020). Financial performance can be described as the accomplishments of the organization during a specific period (Wijayanti & Suryandari, 2020). Financial performance is usually proxied by return on assets (ROA), return on equity, and return on sales.

Out of these measures, ROA is found to be a better measure as it captures the performance of the management and is not contaminated by the differential degree of leverage present in firms(Mishra & Mohanty, 2014). Return on assets, calculated as operating income divided by total assets. Companies who aim to be profitable can see their Return On Assets, ROA can demonstrate the entity's potential to generate net income before taxes from total assets, and ROA can quantify how the entity uses its assets to generate profits. (Budiono & Dura, 2021). Return on assets is calculated by dividing net income by average assets. Return on assets is a commonly used profitability measure that relates to a company's profits during a fiscal year about its assets (Chowdhury et al., 2019).

Audit Committee Size On Financial Performance

From the previous studies, it is known that audit committee size is significantly positively linked with firm performance(Al-ahdal & Hashim, 2022). AC size is positively associated with the quality firm’s financial disclosure (Salehi & Shirazi, 2016). The number of decision-makers (audit committee) affects financial performance. As De Vlaminck & Sarens, (2015) stated that there is a positive and substantial relationship between the fraction of audit committee members' financial statement quality. However, some studies report no effect of AC size on reporting quality (Xie et al., 2003; Abbott, 2004), while other studies document the positive effect of large AC on financial reporting quality (Haldar & Raithatha, 2017). The findings indicated a positive direction but insignificant relationship between audit committee size and return on assets (Zraiq & Fadzil, 2018). Based on the previous statements, the following hypothesis is developed:
H_1: Audit committee size has significant influence on financial performance.

Audit Committee Activity on Financial Performance

The audit committee activity is represented by audit committee meetings. The audit committee's number of meetings has a positive and significant effect on the performance of firms (Al-ahdal & Hashim, 2022). Audit committee meetings exhibit positive and significant effects on financial performance (EPS)) (Okoroyinbo & Nwokeji, 2021). AC meetings held during the fiscal year are negatively associated with the quality of corporate disclosure (Salehi & Shirazi, 2016). However, researchers from Australia found no significant evidence of an association between the frequency of meetings and earnings management (Kamolsakulchai, 2015). Based on the previous statements, the following hypothesis is developed:

H_2 : Audit committee activity has significant influence on financial performance.

Audit Committee Size And Audit Committee Activity On Financial Performance

The audit committee (size and meetings) has a positive and significant effect on financial performance (Aprianingsih, 2016). An audit committee with more members and more regular meetings may also improve the quality of reporting (Haldar & Raithatha, 2017). Audit committee characteristics affect the profitability of the entity (Ioana & Mariana, 2014). According to empirical research, there is an inverse link between the number of audit committee meetings, attendance at audit committee meetings, and business performance (Kamaludin et al., 2023). On the contrary, audit committee size and audit committee meetings have an insignificant positive influence on ROE (Al-ahdal & Hashim, 2022). In addition, the audit committee does not affect the company's financial performance (Azis & Hartono, 2017). However, audit committee efficacy will likely suffer if the committee grows too large. Because a large committee may result in additional losses, procedure, and workload allocation is excessive. Based on the previous statements, the following hypothesis is developed:

H_3 : Audit committee size and audit committee activity have significant influence on financial performance.

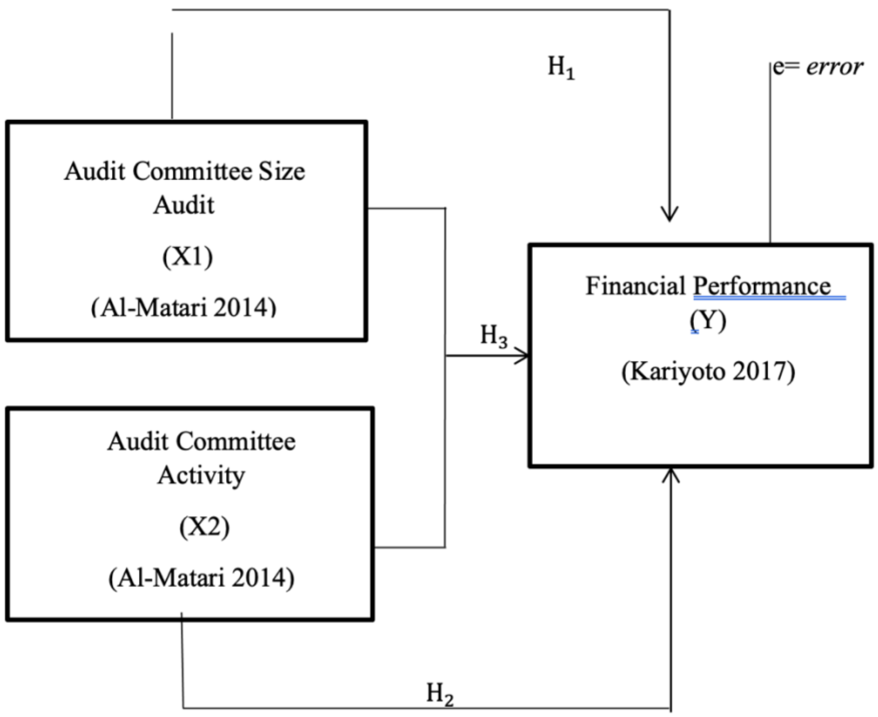

Figure 1 - Reasearch Framework

METODOLOGI

In this research, the type of research used is comparative causal research, namely research that determines the causal relationship between two or more variables. The research method used in this research is descriptive, namely regarding the size of the audit committee (ACSIZE) and audit committee activities (ACMEET) on the company's financial performance (ROA). In this research, the author used companies listed on IDX 30 2016-2018 as the research population and purposive sampling technique based on the following criteria or considerations: 1. Companies that were consecutively listed in IDX 30 during the research period, namely 2016, 2017 and 2018; 2. The company includes the number of members and audit committee meetings in its annual report during the observation year.

Table 1

List of Population and Sample

Description	Sample Criteria	N
Population	30 companies included in IDX 30 for a period of 2016-2018.	90
Excluded samples	12 companies that are *not* listed consecutively IDX 30 for the period of 2016-2018.	(36)
Valid samples	Companies that are consecutively listed IDX 30 for a period of 2016-2018.	54

Table 2

Valid sample used in this research

No	Code	Company Name
1	ADRO	Adaro Energy Tbk
2	ASII	Astra International Tbk
3	BBCA	Bank Central Asia Tbk
4	BBNI	Bank Negara Indonesia (Persero) Tbk
5	BBRI	Bank Rakyat Indonesia (Persero) Tbk
6	BMRI	Bank Mandiri (Persero) Tbk
7	BSDE	Bumi Serpong Damai Tbk
8	GGRM	Gudang Garam Tbk
9	ICBP	Indofood CBP Sukses Makmur Tbk
10	INDF	Indofood Sukses Makmur Tbk

11	INTP	Indocement Tunggal Prakarsa Tbk
12	KLBF	Kalbe Farma Tbk
13	LPFF	Matahari Department Store Tbk
14	PGAS	Perusahaan Gas Negara (Persero) Tbk
15	SMGR	Semen Indonesia (Persero) Tbk
16	TLKM	Telekomunikasi Indonesia (Persero) Tbk
17	UNTR	Unites Tractors Tbk
18	UNVR	Unilever Indonesia Tbk

Audit committee size (ACSIZE) is computed based on the number of audit committee members; audit committee activity (ACMEET) is based on the number of meetings held every year (Al-Matari 2014); and return on asset (ROA) is computed as (Earning after Tax)/(Total Asset) 100%. Annual reports were gathered from each listed companies. Data gathered were tabulated, processed and analyzed.

RESULTS AND DISCUSSION

Descriptive results for audit committee size, audit committee meeting, and return on assets.

This section assessed and described the audit committee size, audit committee meeting, and return on assets using minimum values, maximum values, average values, and standard deviations. The audit committee will act as a supervisor in the implementation of the duties of the directors and board of commissioners over the financial reporting process, minimize company risks, and carry out independent supervision over a company's governance process. Many things need to be considered in assessing an audit committee, one of which is through activities that are measured by the number of meetings. The audit committee holds meetings to discuss activities related to the implementation of the duties of the board of commissioners. Companies listed on the IDX 30 as a whole, hold meetings with varying frequencies from one company to another.

The return on assets ratio is a comprehensive financial performance measurement, all of which influence the financial statements as reflected in this ratio. The data required regarding the calculation of the Return On Asset ratio is taken from the annual report. The financial performance of a company will describe how good and good a company is. Apart from that, financial performance is reported through financial reports which describe the real situation regarding the outcomes that the company has achieved in a certain period. Financial performance is also one of the most important things that prospective investors will consider before determining which company is a suitable place to invest because it contains the results of activities from the company's economic operations. The financial performance of all the companies in the sample can be said to be good because on average they have met the good ROA standard, namely >1%. The ROA value in each company is of course different and the condition of the ROA value in the sample companies always changes from each period. Changes occur in the form of increasing ROA values and decreasing ROA values.

Table 3

Descriptive Statistics

Variables	N	Min	Max	Mean	Std. Deviation
ACSIZE	54	3	6	3.76	1.115
ACMEET	54	4	44	13.65	10.580
ROA	54	1.41	46.70	10.7230	10.50606

Table III above shows that there are 54 valid data. The minimum size of the audit committee is 3 people, namely in the companies Adaro Energy Tbk, Bank Central Asia Tbk, Bumi Serpong Damai Tbk, Gudang Garam Tbk, Indofood Sukses Makmur Tbk, Indocement Tunggal Prakarsa Tbk, Kalbe Farma Tbk, Matahari Department Store Tbk, United Tractors Tbk, Unilever Indonesia Tb in the 2016-2018 research period. The maximum size of the audit committee is 6 people in the companies Bank Rakyat Indonesia (Persero) Tbk and Bank Mandiri (Persero) Tbk throughout the 2016-2018 research period. A standard deviation that is lower than the average value, explains that the distribution of the data is relatively low and also explains that all the data in this study is normally distributed with information that is 1.115 from the average which is 3.76. The average is considered to be 4 because the size of the audit committee measured is in the form of the number of people who are members of the audit committee in a company, which means that all companies sampled in this study meet the standards set by PJOK No. 55 of 2015, namely the minimum number of audit committee members in an agency or company is 3 people.

While audit committee meetings, the minimum number of audit committee meetings is 4 times, namely at the companies Indocement Tunggal Prakarsa Tbk, Kalbe Farma Tbk, Matahari Department Store Tbk, United Tractors Tbk, Unilever Indonesia Tbk. The maximum size of the audit committee is 44 times in the company Semen Indonesia (Persero) Tbk in 2018. The standard deviation which is lower than the average value, explains that the spread of data is relatively low and also explains that all the data in This study had a normal distribution with information within 10.580 from the average of 13.65. The average is considered to be 14 because the audit committee activity measured is in the form of the number of meetings held by the audit committee in a company, which means that all companies sampled in this study have met the standards according to PJOK No. 55 of 2015, namely the minimum number of audit committee meetings is 4 times a year.

For return on assets (ROA), the minimum value of return on assets is 1.41%, namely at Bank Mandiri (Persero) Tbk. The maximum value of Return on Assets is 46.70% in the company Unilever Indonesia Tbk. The table above, through a standard deviation that is higher than the average, explains that the spread of data is relatively high and all data in this study is normally distributed with information that is 10.50606 from the average which is 10.7230.

Influence of Audit Committee Size and Audit Committee Activity on Financial Performance

This section described the influence of audit committee size on financial performance.

Table IV
Correlations

	ROA	ACSIZE	ACMEET
ROA	1	-.293*	-4.22**
ACSIZE	-.293*	1	
ACMEET	-.422**		1

**. Correlation is significant at the 0.05 level (2-tailed)*
***. Correlation is significant at the 0.01 level (2-tailed).*

Based on Table IV above, it is stated that the size of the audit committee has a correlation coefficient value which is between 0.200 – 0.399, namely -0.293 and is negative, indicated by a minus sign on the correlation coefficient value, meaning that there is a weak correlation between the size of the audit committee and financial performance and there is a negative relationship. between the two, which means that the larger the size of the audit committee, the smaller its financial performance will be and vice versa. This means that when there are additional members on the audit committee, there will be a decline in financial performance. This could happen because when there are additional members on the audit committee, the salary costs that must be paid by the agency or company become higher, causing company expenses to increase which has an impact on the company's financial performance.

It is also stated that there is a correlation between audit committee activities and financial performance which can be seen through the correlation coefficient value which is between 0.40 – 0.599, namely -0.422, this shows that there is a correlation between the number of audit committee meetings and financial performance at the level moderate or sufficient. The correlation coefficient above is negative, indicated by the minus sign in the correlation coefficient value, which means that the higher the frequency of audit committee meetings, the lower the financial performance and vice versa. This could happen for the same reason as the increase in the number of audit committee members, so when there is an increase in the frequency of the number of audit committee meetings, the company's expenses will also increase in terms of salaries and other costs related to the meetings held. The existence of a significant correlation between the number of audit committee meetings and financial performance is also indicated by an asterisk in the correlation coefficient value.

Table V
Correlations

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.600[a]	.360	.334	.30545

a. Predictors: (Constant), ACMEET, ACSIZE
b. Dependent Variable: ROA

Based on Table V above, it shows that the correlation (r) is 0.600, and it falls under the category of strong correlation among the variables. This indicates that there is a direct and strong relationship among ACSIZE, ACMEET and ROA. As ACSIZE increases ROA increases as well, and the same is through with ACMEET. The R Square resulted to 0.360 or 36%, this indicates that 36% percent of ACSIZE and ACMEET explains the controbution on the influence to ROA.

Table VI

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	19.025	4.745		4.010	.000
	ACSIZE	-.866	1.416	-.092	-.612	.543
	ACMEET	-.370	.149	-.372	-2.478	.017

a. Dependent Variable: ROA

Table VI shows the result of multiple regression. Based on the result, ACSIZE showed that it has a negative and insignificant influence on ROA. This means that the size of the audit committee in IDX 30 does not affect financial performance. The result of the study is aligned with the study made by Haldar & Raithatha, (2017) & Zraiq & Fadzil (2018). On the other hand, ACMEET showed a negative and significant influence on ROA. The negative, indicated by the minus sign means that the higher the frequency of audit committee meetings, the lower the financial performance and vice versa. This could happen for the same reason as the increase in the number of audit committee members, so when there is an increase in the frequency of the number of audit committee meetings, the company's expenses will also increase in terms of salaries and other costs related to the meetings held. The lesser the meeting the less cost thus lessening expenses which in turn will add to profit, thus ROA increases. The result is in line with but positive (Al-ahdal & Hashim, 2022) & (Okoroyinbo & Nwokeji, 2021). Thus the regression is as follows:

ROA = 19,025 + (-0,866) ACSIZE + (-0,370) ACMEET + error

Table VII
Significance test

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1076.512	2	538.256	5.751	.006[a]
	Residual	4773.487	51	93.598		
	Total	5849.999	53			

a. Predictors: (Constant), ACSIZE, ACMEET

b. Dependent Variable: ROA

From the F test results above, it shows that the Fsig value of 0.006 is smaller than 0.05. This proves that the size of the audit committee and audit committee activities simultaneously influence the company's financial performance. This is in line with the research done by Aprianingsih, (2016); Haldar & Raithatha (2017) & Ioana & Mariana

(2014). This is an indication that audit committee members had carried out their duties to strictly monitor the activities of the company they are connected with.

KESIMPULAN

An audit committee exists due to the demand for good corporate governance. Profit maximization is always the core of the business. This research aims to examine how much influence the size of the audit committee and audit committee activities have on the company's financial performance. 18 companies listed on the IDX 30 index for 3-year periods. These listed companies had fulfilled the requirement of the law that at least 3 members comprise the audit committee. It was also found that the audit committee meetings were held at least four (4) times a year. The financial performance is measured by the return on assets (ROA), all companies had succeeded in surpassing the least which is 1%. Most of the companies perform well even when a company reaches 46.70% ROA. The size of the audit committee does not have a significant and negative effect on the company's financial performance which can be caused by. The results of this research indicate that the understanding of the functions, duties, and responsibilities of the audit committee is still varied, thus triggering the audit committee to become ineffective in carrying out its duties which in the end can result in the quality of the company's financial performance not being realized and there are still many companies whose audit committees are not only working for one company but instead working for several companies, communication between the commissioners and the audit committee does not run harmoniously and there is a lack of monitoring by government institutions regarding the professional standards of the audit committee, resulting in the audit committee not being able to work efficiently and effectively.

Audit committee activities have a negative and significant effect on financial performance, indicated by a significance value of less than 0.05, namely 0.001. According to researchers, the number of meetings held by the audit committee does not mean that the audit committee can carry out its duties well but instead can increase the problems faced. Holding a meeting means having to bring together the thoughts of several people and at the highest level, the existing problems instead of being resolved become even more complicated. How many or few meetings are held can affect the company's financial performance. Not all meetings held by the audit committee discuss problems faced by management. In agency theory, the audit committee should be able to resolve existing problems, but in reality, the meetings held are ineffective and even increase agency costs. Not all members were able to attend the meeting, because they had other activities outside of being on the company's audit committee. This makes it difficult to overcome problems that require quick decision-making, or problems that must be resolved immediately, which will have an impact on decreasing financial performance.

Simultaneously or concurrently and as a whole when tested with the F test, it can be concluded through this research that the size of the audit committee and the activities of the audit committee have a significant effect on the company's financial performance. This is proven through the F test which shows a significance value of less than 0, 05 which is 0.006.

The researcher would like to recommend that companies are advised to pay more attention to matters related to the size of the audit committee and audit committee activities. It is recommended that companies do not need to have an audit committee size and the number of audit committee meetings that exceed the company's needs. For further studies, it is advised to carry out similar research by focusing their research more on one business sector so that the research results can be more focused and can be more useful for the business sector being studied. And lastly, consider different indicators in determining financial performance. Another recommended model is Tobin's Q because this ratio concerns all financial entities, namely assets, liabilities, and equity.

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